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7 - AUG 1977

MEMORANDUM FOR: The Comptroller

ATTENTION : Technical Accounting Staff

SUBJECT : Financial Administration

REFERENCE : Proposed Revision No. 1

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1. As a general comment, the pricing policy seems to be adhering to the principle of holding unit costs to an absolute minimum and in some instances prices are below true costs. For example, under insert A, para (1)(a) proposes that transportation and handling costs not be included in the cost. Why not? How are these true costs to be funded? In the same insert, para (b)(2) proposes that unit prices be based upon the actual costs of acquiring the material but it should be made clear that the unit price should be adjusted upward to cover any units that are scrapped upon receiving inspection.

2. This pricing principle, even if modified to meet all actual costs does not provide sufficient funds to allow the Bulk Stock Procurement Fund to operate as a revolving fund. Without a price mark-up there is no funding provision for loss due to obsolescence, breakage, theft, spoilage, price increases, etc. The "store keepers" for most of the bulk stock operations are within the DD/S, therefore, presumably the burden of meeting the inevitable deficit would be with the DD/S. This appears illogical when defending the total Agency budget.

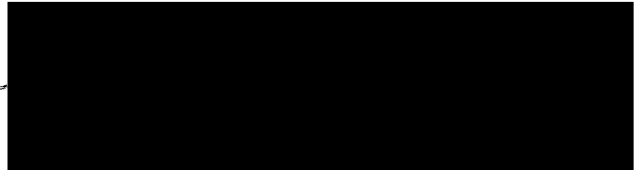
3. In considering why this loss factor for obsolescence, etc., has not been a major problem heretofore, the answer is that "savings" have been used to maintain Agency stock procurement expenditures at a level considerably higher than the actual consumption rate. If "savings" dry up as they could under the tighter funds program, the stock accounts may find themselves in real trouble within the next year or so. Consideration should be given now to using a 10 percent - 15 percent mark-up to cover the loss factors inherent in all operations of this type.

4. A specific comment on the subject is an objection to the proposed insert H. This appears tantamount to allowing a man to be the judge in his own case. In the case of communications items, there is a worldwide program monitored at Headquarters and communications Area Chiefs are not permitted

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unlimited freedom for types and quantities of equipment installed in their radio stations. There are reasons, such as training of personnel in the proper equipment, maintenance and spare parts problems and the planning for equipment compatibility that underlie the establishment of the existing controls.



Chief, Plans Staff, OC

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